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New North Resources Ltd.

annual
REPORT

2002

CORPORATE PROFILE

New North Resources Ltd. ("New North" or the "Company") is a Calgary-based junior oil and natural gas corporation engaged in the exploration, development, acquisition and production of natural gas and medium to light gravity crude oil reserves in Alberta.

New North's common shares trade on the TSX Venture Exchange under the symbol NNT.

The Company's primary corporate objective is to achieve non-dilutive growth and enhance shareholder value through internal prospect development, strategic production acquisitions and prudent financial management.

Abbreviations

barrel............................... ***Bbl***

barrels per day.......................... ***Bpd***

thousand cubic feet............................ ***Mcf***

billion cubic feet....................................... ***Bcf***

thousand cubic feet per day...................... ***Mcfpd***

natural gas liquid... ***NGL***

barrel of oil equivalent (6 Mcf : 1 Bbl).................. ***BOE***

barrel of oil equivalent per day .... ***BOEpd***

all sums of money are expressed in Canadian dollars

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The following table provides comparative results for the years ended December 31, 2002 and 2001 :

		2002	2001	% Change
Revenue (net of royalties)		**1,310,613**	1,165,294	+ 12
Cash flow		**618,081**	744,818	- 17
Cash flow per share (basic)		**0.07**	0.10	- 30
Cash flow per share (diluted)		**0.07**	0.10	- 30
Net earnings		**2,811,648**	207,472	+ 1,255
Net earnings per share (basic)		**0.33**	0.03	+ 1,000
Net earnings per share (diluted)		**0.32**	0.03	+ 970
Capital expenditures (net)		**2,316,891**	1,363,071	+ 70
Bank loan (net of working capital)		**1,967,524**	432,744	+ 355
Shareholders' equity		**4,748,899**	1,285,347	+ 269
Production				
Oil and NGL	Total Bbl	**18,731**	9,694	+ 93
	Per day	**51**	27	+ 89
	Average price $	**31.35**	36.20	- 13
Natural gas	Total Mcf	**240,392**	192,692	+ 25
	Per day	**659**	528	+ 25
	Average price $	**4.11**	5.66	- 27
BOE (6:1)	Total BOE	**58,796**	41,809	+ 40
	Per day	**161**	115	+ 40
	Average price $	**26.32**	34.47	- 22
Shares traded		**539,250**	727,700	- 26
Value traded $		**145,598**	185,950	- 22
Share price $				
High		**0.36**	0.50	- 28
Low		**0.20**	0.14	+ 43
Close		**0.32**	0.27	+ 19
Issued and outstanding (12/31)		**10,651,667**	8,325,000	+ 28
Weighted average outstanding		**8,599,041**	7,645,830	+ 12

FORWARD-LOOKING STATEMENTS

Certain statements in this material may be "forward-looking statements," including outlook on oil and gas prices, estimates of future production, estimated completion dates of construction and development projects, business plans for drilling and exploration, estimated amounts and timing of capital expenditures and anticipated future debt levels. Information concerning reserves contained in this material may also be deemed to be forward-looking statements as such estimates involve the implied assessment that the resources described can be profitably produced in the future. These statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties that could cause actual results to differ from those anticipated by New North Resources Ltd.

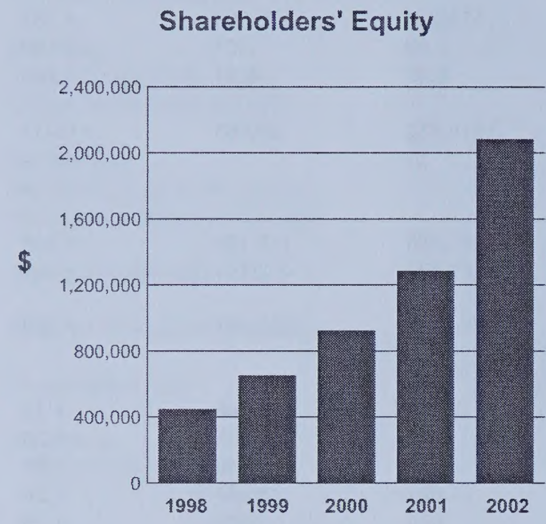
The following table provides comparative results for the three months ended December 31, 2002 and 2001 :

		Q4 2002	Q4 2001	% Change
Revenue (net of royalties)		**385,238**	201,055	+ 92
Cash flow		**170,019**	70,694	+ 133
Cash flow per share (basic)		**0.02**	0.01	+ 100
Cash flow per share (diluted)		**0.02**	0.01	+ 100
Net earnings		**2,716,758**	28,563	+ 9,411
Net earnings per share (basic)		**-**	-	-
Net earnings per share (diluted)		**-**	-	-
Capital expenditures (net)		**583,358**	150,156	+ 288
Bank loan (net of working capital)		**1,967,524**	432,744	+ 355
Shareholders' equity		**4,748,899**	1,285,347	+ 269
Production				
Oil and NGL	Total Bbl	**3,844**	3,246	+ 18
	Per day	**42**	35	+ 20
	Average price $	**37.61**	27.16	+ 38
Natural gas	Total Mcf	**61,622**	48,834	+ 26
	Per day	**670**	531	+ 26
	Average price $	**5.21**	3.19	+ 63
BOE (6:1)	Total BOE	**14,114**	8,129	+ 74
	Per day	**153**	88	+ 74
	Average price $	**32.98**	30.01	+ 10

The following table is a five year financial and operating summary :

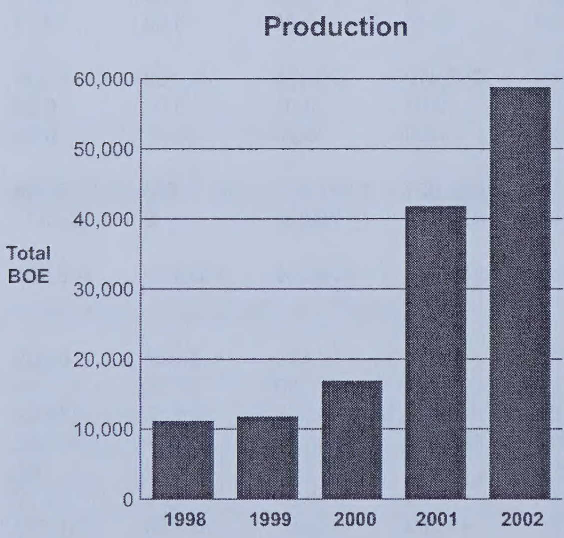
		2002	2001	2000	1999	1998
Revenue (net of royalties)		**1,310,613**	1,165,294	560,572	223,283	156,263
Cash flow		**618,081**	744,818	405,657	133,763	67,967
Cash flow per share (basic)		**0.07**	0.10	0.06	0.03	0.01
Cash flow per share (diluted)		**0.07**	0.10	0.06	0.03	0.01
Net earnings		**2,811,648**	207,472	179,426	44,133	6,936
Net earnings per share (basic)		**0.33**	0.03	0.03	0.01	0.00
Net earnings per share (diluted)		**0.25**	0.03	0.03	0.01	0.00
Capital expenditures (net)		**2,316,891**	1,363,071	1,947,947	755	135,209
Bank loan (net of working capital)		**1,967,524**	432,744	78,052	0	135,374
Shareholders' equity		**4,748,899**	1,285,347	924,259	653,070	448,187
Production						
Oil and NGL	Total Bbl	**18,731**	9,694	7,123	5,827	6,000
	Per day	**51**	27	20	16	16
	Average price $	**31.35**	36.20	41.08	24.32	18.39
Natural gas	Total Mcf	**240,392**	192,692	58,643	35,767	31,132
	Per day	**659**	528	161	98	85
	Average price $	**4.11**	5.66	6.30	3.09	2.17
BOE (6:1)	Total BOE	**58,796**	41,809	16,897	11,788	11,189
	Per day	**161**	115	46	32	31
	Average price $	**26.80**	34.47	39.18	21.40	15.90
Shares traded		**539,250**	727,700	432,260	152,900	124,000
Value traded $		**145,598**	185,950	87,566	11,793	11,480
Share price $						
High		**0.36**	0.50	0.40	0.25	0.13
Low		**0.20**	0.14	0.10	0.05	0.05
Close		**0.32**	0.27	0.20	0.15	0.05
Issued and outstanding (12/31)		**10,651,667**	8,325,000	7,325,000	5,925,000	4,740,000
Weighted average outstanding		**8,599,041**	7,645,830	6,276,913	4,743,246	4,740,000

New North achieved its fifth consecutive year of growth in 2002. The Company's strategy of splitting its capital expenditures between acquisitions and exploration has given New North consistent increases in revenue, cash flow, earnings and production with exploration upside. Along the way, shareholders have seen the Company's share price appreciate from a close of $0.05 in 1998 to $0.32 in 2002.



In 2002, the Company's exploration and development activity and three significant asset acquisitions resulted in a 40 percent increase in production volumes and a 12 percent increase in revenue compared with 2001. The Company spent approximately half of its capital on acquisitions of proved producing properties and half on exploration and development projects during the year. Capital expenditures increased to $2.3 million in 2002, an increase of 70 percent over 2001.

New North achieved increases in production through the acquisition of interests in Sundre, Cessford and Ferrybank, Alberta. The Sundre acquisition increases New North's working interest and gives the Company operatorship of two wells in a major gas pool which has produced 60 Bcf since it began production. Reserve analysis indicates the field is only half depleted. The acquisitions at Cessford and Ferrybank have allowed New North to increase its interests in these long-life gas properties.



Also during the year, the decision was made for New North to join forces with Canadian Blackhawk Energy Inc. New North had established a mandate to find another oil and gas company with attractive oil and gas assets and appropriate tax structure. Canadian Blackhawk was a good fit with production of 50 BOEpd and approximately $3 million in tax pools and losses. Canadian Blackhawk was in extreme financial difficulty and the only way to resolve its problems was for a proposal to be made to the creditors for settlement of the company's debts. In connection with the reorganization of Canadian Blackhawk Energy, New North transferred to Blackhawk 98 percent of its interest in New North Resources Partnership in exchange for Canadian Blackhawk Energy preferred shares. In addition, New North and Blackhawk formed a new partnership by contributing their respective oil and gas assets. The total cost of the reorganization including all professional fees will be about $1 million. As of December 31, 2002, the Company had expended $374,853 on this transaction.

Although New North's acquisitions have played a greater role in the Company's growth over the past three years than exploration activities, our current inventory of prospects to be drilled in 2003 is very encouraging.

Outlook

With the strengthening of commodity prices and an expanded production base, New North expects to boost cash flow in 2003. The Company's priorities for 2003 are to maximize production volumes from existing properties, to use flow-through financing to drill at least three wells on existing prospects and to reduce debt with unallocated cash flow.

I would like to thank the directors and staff of New North as well as the consultants and associates who have contributed to the success and growth of New North over the past year.

On behalf of the Board of Directors,

Hugh M. Thomson
President
April 25, 2003

OPERATIONS REVIEW

Acquisitions and Dispositions

New North had an active year buying and selling properties. The Company purchased various interests in the Sundre, Alberta area in January 2002 for $1.12 million. This strategic acquisition increased New North's working interest to 35 percent and gave the Company operatorship of the two wells. Two other significant acquisitions were at Cessford and Ferrybank, Alberta.

At Cessford, New North bought out one of its partners for $115,000 to increase its working interest from 35 percent to 67.5 percent. New North as operator re-worked the well in 2002 and increased gross daily production from 100 Mcfpd to 200 Mcfpd.

At Ferrybank, New North bought out a partner for $200,000 to increase its ownership of the Belly River Gas Unit from 1.6568 percent to 2.9686 percent. Included in the Ferrybank acquisition was a 25 percent working interest in a separate Glauconite well. Subsequent to the purchase, this well was dually completed at a minor cost and gross gas production increased from 30 Mcfpd to 180 Mcfpd.

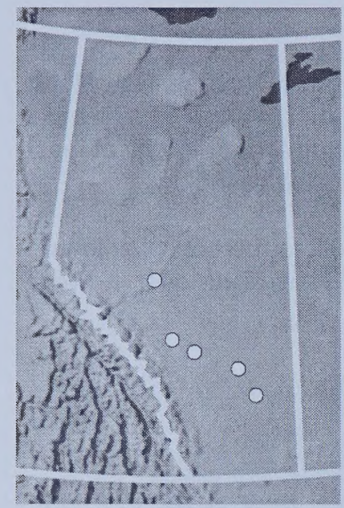
During 2002, the Company disposed of several minor properties for cash. In October 2002, a gas well at Byemoor, Alberta was sold for $60,000. In December 2002, New North sold a small working interest in the Joffre D2 Unit for $90,000.

Canadian Blackhawk Energy Reorganization

In early 2002, New North identified Canadian Blackhawk Energy Inc. (Blackhawk) as a potential operational partner. At the date of this report, all court and shareholder approvals for the reorganization have been received. This transaction is expected increase New North's average daily production by 50 BOEpd and provide tax shelter for future cash flow of approximately $3 million.

Exploration and Development

• Carson Creek, Alberta



New North has a six percent working interest in this high risk/ high reward project near Whitecourt, Alberta. The joint venture owns 13 sections of contiguous land with deep mineral rights. In September 2002, an initial well was drilled to 2,691 meters for natural gas. The well bore encountered the carbonate reef but was deemed non-commercial. In the first quarter of 2003, the joint venture shot an $800,000 3D seismic program over the lands to determine the location of a second well to be drilled in the summer of 2003. The targeted pool is estimated to contain between 50 and 100 Bcf of natural gas.

• Central Alberta

In the fall of 2002, New North participated in four wells targeting natural gas at four independent locations in central Alberta as outlined below:

Location	Working Interest	Depth
Three Hills Creek	25 percent	1,015 meters
Rumsey	40 percent	715 meters
Pembina	25 percent	315 meters
Peco	25 percent	1,815 meters

All four wells were cased as potential gas wells. The well at Three Hills Creek was completed and production tested in the Basal Belly River zone. A pipeline is currently under construction and the well will be put on production in April 2003. The Rumsey well was completed in the Belly River zone and the reservoir was found to be unproductive. This well is awaiting an uphole completion in the Edmonton zone. At Peco and Pembina, both wells successfully tested gas after completion, however formation water invaded the reservoir and these wells have been deemed non-commercial.

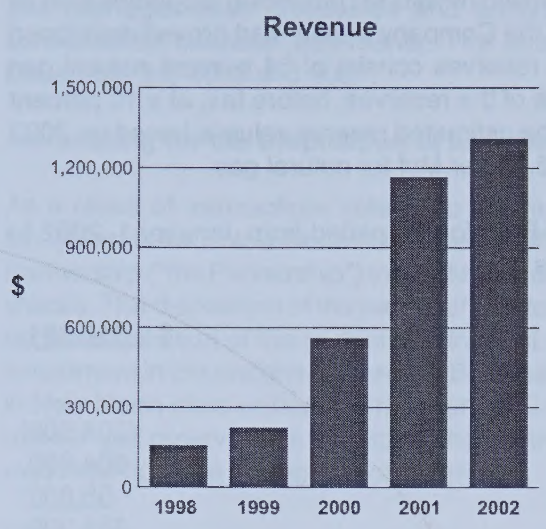
Commodities

2002 was another roller coaster year for oil and natural gas prices. New North sells almost all of its production into the spot market, thus we are price takers and our revenues are directly related to the prices set by commodities markets. Canadian spot prices for oil and natural gas increased substantially from January 2002 to December 2002. During the calendar year, 2002 oil prices increased by 30 percent and natural gas prices increased by 130 percent. Commodity prices in early 2003 continued to increase, resulting in record high monthly revenues for the Company.

Financial

In 2002, the Company's revenues (net of royalties) increased to $1,310,613 from $1,165,294 in the prior year, an increase of 12 percent. Cash flow from operations for the year decreased by 17 percent to $618,081 ($0.07/share) compared with $744,818 ($0.10/ share) in 2001. Earnings for the year increased by 1,255 percent to $2,811,648 ($0.33/ share) compared with $207,472 ($0.03/share) in 2001.

For the three months ended December 31, 2002, revenues were $385,238, an increase of 92 percent over the same period in 2001. Cash flow from operations in the fourth quarter of 2002 was $165,019 ($0.02/share), an increase of 133 percent over 2001.



The Company produced an average of 161 BOEpd during the year compared with 115 BOEpd in 2001, an increase of 40 percent. Production in 2002 consisted of 42 Bbl and NGL per day and 670 Mcfpd.

New North exited the year with production of 165 BOEpd, consisting of 50 Bbl and NGL per day and 688 Mcfpd. The 2002 exit rate represents an increase of 34 percent over the exit rate of 123 BOEpd for 2001.

As of the date of this report, New North's production is approximately 180 BOEpd, consisting of 55 Bbl and NGL per day and 750 Mcfpd.

Capital expenditures for the year ended December 31, 2002 totalled $2,316,891:

Acquisition of producing properties (net)	$1,216,550
Land purchases	230,000
Geological and geophysical	170,000
Drilling, completion and tie in	539,000
Canadian Blackhawk Energy Inc.	374,853
Future tax adjustment	(213,512)
Total	$2,316,891

In the period from September to December 2002, New North sold 2,519,667 flow-through common shares at $0.30/share by way of private placement for gross proceeds of $755,900.

During 2002, New North purchased 193,000 of its common shares on the TSX Venture Exchange at an average price of $0.28 under its Normal Course Issuer Bid. New North believes it is beneficial to shareholders to purchase its common shares from time to time if the Company considers the shares to be undervalued based on current earnings and future prospects.

The Company ended the year with a working capital deficit of $548,024 and bank debt of $1,419,500 for net debt of $1,967,524.

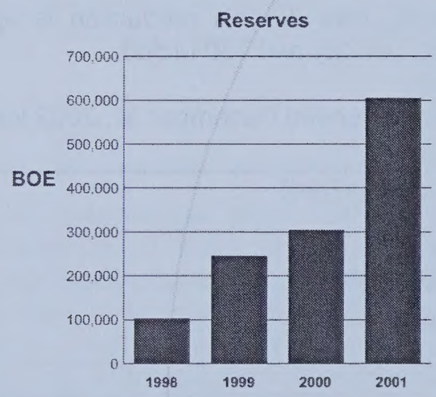
At December 31, 2002, the Company had a revolving loan facility of $2,100,000.

RESERVE ANALYSIS

New North's reserve report evaluates all of its proved developed producing properties held as at December 31, 2002. At December 31, 2002 the Company's estimated proved developed producing reserves were 604,917 BOE. The reserves consist of 64 percent natural gas and 36 percent oil and NGL. The present value of the reserves, before tax, at a 10 percent discount rate is estimated to be $5,387,000. The estimated reserve value is based on 2003 prices of $37.94 for oil, $25.00 for NGL and $5.31 per Mcf for natural gas.

Acquisition and development (A&D) costs per BOE for the period from January 1, 2002 to December 31, 2002 were calculated as follows :

2002 capital asset additions (net)	$ 2,316,891
Reserve additions (BOE)	
January 1, 2002 reserves	(304,500)
December 31, 2002 reserves	604,900
2002 production	58,800
Total reserve additions / revisions	359,200
A&D costs/BOE	$ 6.45



ESTIMATED RESERVES and PRESENT WORTH VALUE
Proved Developed Producing (Based on Escalated Pricing Before Royalties)

	Oil	NGL	Natural Gas	Gross Reserves BOE	Present Worth Value Before Tax Discounted 0% ($000)	10% ($000)	15% ($000)
	Mstb	Mstb	Mmcf	Mboe			
Estimated Reserves January 1, 2002	72.7	50.8	1,086.10	304.50			
Production for year	(8.7)	(10.0)	(240.4)	(58.8)			
Reserve additions/revisions for year	46.5	66.0	1,480.0	359.2			
Estimated reserves December 31, 2002	110.5	106.8	2,325.7	604.9	10,768	5,387	4,382

Notes :

(i)The estimated reserves and present worth value report was prepared by an independent professional engineer.
(ii)The report evaluates only the proved developed producing properties of New North as at December 31, 2002.
(iii)The pricing forecast used in the report is the January 1, 2003 forecast used by Trimble Engineering Associates Ltd.
(iv)Present worth value figures do not include ARTC and are before abandonment and site restoration.

MANAGEMENT'S DISCUSSION & ANALYSIS

The management's discussion and analysis should be read in conjunction with the consolidated financial statements. The analysis compares results for the years ended December 31, 2002 and 2001.

Accounting for the Disposition of an interest in New North Resources Partnership

As a result of transactions related to the reorganization of Canadian Blackhawk Energy Inc. (Blackhawk), New North transferred a 98 percent interest in the New North Resources Partnership ("the Partnership") to Blackhawk on December 31, 2002 in exchange for preferred shares. The disposition of the partnership interest to Blackhawk was accounted for as a gain on the disposition of the partnership interest, a reduction of capital assets and a long-term investment in the preferred shares of Blackhawk. Furthermore, the capital assets remaining in New North were written down under the Ceiling Test rules since all of the petroleum and natural gas reserves are owned by the Partnership and therefore all of the reserves were excluded from the ceiling test calculation.

Revenues

	2002	2001	Variance
Gross Revenues	$ 1,547,404	$ 1,441,216	+ 7%
Average Gas Price ($/Mcf)	4.11	5.66	- 27%
Average Oil & NGL Price ($/Bbl)	$ 31.35	$ 36.20	- 13%

The increase in gross revenues is attributable to a 40 percent increase in average daily production volumes, offset by a 22 percent decline in oil, NGL and natural gas prices. Gross revenues for 2003 are expected to increase as forecast production volumes and commodity prices are higher than 2002.

Royalties

	2002	2001	Variance
Gross royalties	$ 331,566	$ 360,620	- 8%
Alberta Royalty Tax Credit	27,147	68,593	- 60%
Net Royalties	$ 304,419	$ 292,027	+ 4%

Gross royalties as a percentage of gross revenues were 21 percent in 2002 compared with 25 percent in 2001. This royalty percentage decrease is due to lower overall commodity prices. ARTC decreased significantly because a larger percentage of revenues were ineligible.

Production Expense

	2002	2001	Variance
Production Expense	$ 315,834	$ 210,820	+ 50%
Production Expense per BOE	5.37	5.04	+ 7%

Production expense increased by 50 percent mainly due to a 40 percent increase in production volumes.

Operating Netbacks per BOE

	2002	2001	Variance
Sales Price ($/BOE)	$ 26.32	$ 34.47	- 24%
Royalties (net of ARTC)	5.18	7.07	+ 27%
Production Expenses	5.37	5.04	+ 7%
Operating Netback	$ 15.77	$ 22.36	- 30%

Operating netbacks decreased by 30 percent due to a 27 percent decrease in natural gas prices combined with a 13 percent decrease in oil and NGL prices.

General and Administrative Costs

	2002	2001	Variance
General and Admin. Costs	$ 246,743	$ 180,380	+ 37%
General and Admin. Costs per BOE	4.20	4.31	- 3%

The increase in general and administrative costs is due to the overall growth in the Company's business activities, specifically the assumption of operatorship of two new wells in Sundre, Alberta.

Interest Expense

	2002	2001	Variance
Interest expense	$ 99,500	$ 29,276	+ 240%
Interest expense per BOE	1.69	0.70	+ 141%

The increase in interest expense is due to an increase in bank debt of 202 percent over 2001. The large increase in bank debt is related to the purchase of properties in the Sundre area in January 2002 for $1,120,000. This purchase was funded entirely with bank debt.

Cash Flow

	2002	2001	Variance
Cash flow	$ 613,081	$ 744,818	- 18%
Cash flow per share	0.07	0.10	- 30%

Although production volumes increased by 40 percent year over year, New North's cash flow decreased by 18 percent due to lower commodity prices and higher interest and general and administrative expenses.

Depletion and Site Restoration

	2002	2001	Variance
Depletion and site restoration	$ 381,875	$ 369,797	+ 3%
Depletion and site restoration per BOE	6.49	8.84	- 27%

The depletion and site restoration expense per BOE has decreased by 27 percent as a result of significant reserve additions during 2002, mainly in the Sundre area of Alberta.

Tax Expense

	2002	2001	Variance
Tax expense (recovery)	($ 300,291)	$ 167,549	-

The tax recovery realized in 2002 is attributed to tax reductions related to New North's investment in Canadian Blackhawk Energy Inc., the Alberta royalty tax credit, the Federal Resource allowance and the recognition of prior years tax losses carried forward.

Liquidity and Capital Resources

The Company finances its operations from a combination of working capital, cash flow, share issuance and bank loans. The following table summarizes the source of capital resources for the year 2002:

Working capital	$ 698,280
Cash flow	613,081
Share issuance (net)	686,904
Bank loan	949,951
Total	$ 2,948,216

Bank Debt

The Company has a $2,100,000 operating line of credit of which 1,419,500 was drawn at December 31, 2002. At year end New North had a working capital deficiency of $548,024, which when added to the line of credit results in net debt of $1,967,524. The net debt has increased by 355 percent over the year ended 2001. This large increase is attributable to the purchase of Sundre assets and other capital expenditures in 2002.

Future Taxes

At December 31, 2002, the future tax liability was $338,331. Due to the Blackhawk reorganization, the tax liability horizon has been extended by several years.

Share Capital

	2002	2001	Variance
Share capital $	$ 1,468,741	$ 781,837	+ 88%
Shares issued	10,651,667	8,325,000	+ 28%

Share capital value increased by 88 percent as a result of the issuance of 2,519,667 flow-through shares at $0.30 per share for total proceeds of $755,900.

Business Risks and Outlook

The exploration, development, acquisition and production of natural gas and medium to light gravity crude oil reserves in Alberta involves certain business risks and uncertainties which have the potential to significantly affect operating and financial results.

Exploration and development risks are related to New North's ability to economically find and produce new reserves. The company reduces this risk by employing experienced employees and consultants as well as participating with other companies in the industry to share information and resources.

Commodity prices have historically fluctuated widely and the Company has no control over the prices since they are influenced by external factors. New North manages this risk by selling its products through various marketers at daily, monthly and pooled sales contracts.

The reorganization of Canadian Blackhawk Energy Inc. has presented several risks to New North as Blackhawk was insolvent and had to file for court protection from its creditors. In order to ensure that Blackhawk's assets were not encumbered by creditors, a proposal under the Bankruptcy and Insolvency Act was completed to extinguish all debts going forward. Some creditor issues related to the proposal are still outstanding. Furthermore, the transfer of assets to Blackhawk at December 31, 2002 in exchange for preferred shares presents some risk to the Company until such time as the proposal is completed.

In 2003, New North expects to post higher operating cash flows due to production increases and higher commodity prices. The Company's priorities for 2003 are to maximize production volumes from existing properties, to use flow-through financing to drill at least three wells on existing prospects, and to reduce debt with unallocated cash flow.

Pending Accounting Change

The CICA has recently issued Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The new standard requires the recognition, measurement and disclosure of stock-based compensation and other stock-based payments in exchange for goods and services. The company is required to adopt this new standard on January 1, 2003 and apply it to stock-based payments in exchange for consulting services. The adoption of this standard could result in future charges to operations.

NNT

New North Resources Ltd.

MANAGEMENT REPORT

Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report.

The Company maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.

Hugh M. Thomson
President & CEO

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of New North Resources Ltd. as at December 31, 2002 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year comparative figures were audited by another firm of chartered accountants.

Buchanan Barry LLP

BUCHANAN BARRY LLP
Chartered Accountants

Calgary, Canada
March 20, 2003

CONSOLIDATED BALANCE SHEETS

Years Ended December 31

		2002		2001
Assets				
Current assets :				
Cash	$	10,460	$	-
Accounts receivable		809,431		356,300
Prepaid expenses		14,699		22,580
		834,590		378,880
Deferred charges (note 2)		2,574,853		-
Capital assets (note 3)		880,978		2,589,834
Long-term investments (note 4)		5,863,812		-
	$	10,154,233	$	2,968,714
Liabilities and Shareholders' Equity				
Current liabilities :				
Bank loan (note 5)	$	1,419,500	$	469,549
Accounts payable and accrued liabilities		1,382,614		342,075
Loan payable (note 6)		2,264,889		-
		5,067,003		811,624
Site restoration		-		19,609
Future income taxes (note 8)		338,331		852,134
		5,405,334		1,683,367
Shareholders' equity :				
Common shares (note 7)		1,468,741		781,837
Retained earnings		3,280,158		503,510
		4,748,899		1,285,347
	$	10,154,233	$	2,968,714

See accompanying notes to financial statements.

On behalf of the Board,

Hugh M. Thomson,
Director

J. Norman Blair,
Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years Ended December 31

	2002	2001
Revenue :		
Petroleum and natural gas	$ 1,547,404	$ 1,441,216
Processing	6,785	
Royalties	(331,566)	(360,620)
Alberta royalty tax credit	27,147	68,593
	1,249,770	1,149,189
Other income	60,843	16,105
	1,310,613	1,165,294
Expenses :		
Operating	315,834	210,820
General and administrative	246,743	180,380
Interest	99,500	29,276
Depletion and site restoration	381,875	369,797
	1,043,952	790,273
Net earnings from operations	266,661	375,021
Excess depletion (Note 3)	(1,073,284)	-
Gain of sale of partnership	3,326,853	-
Net earnings before income taxes	2,520,230	375,021
Current income taxes	8,873	-
Future income taxes (recovery)	(300,291)	167,549
	(291,418)	167,549
Net earnings	2,811,648	207,472
Retained earnings, beginning of year	503,510	340,448
Share repurchase adjustment	(35,000)	(44,410)
Retained earnings, end of year	$ 3,280,158	$ 503,510
Net earnings per share :		
Basic earnings per share	$ 0.33	$ 0.03
Diluted earnings per share	$ 0.32	$ 0.03

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31

	2002	2001
Cash provided by (used in):		
Operations :		
Net earnings	$ 2,811,648	$ 181,562
Items not involving cash :		
Depletion and site restoration	381,875	369,797
Excess depletion	1,073,284	-
Partnership income	(21,582)	
Gain on sale of partnership	(3,326,853)	-
Future income taxes	(300,291)	193,459
	618,081	744,818
Funds generated from operations		
Change in non-cash working capital (note 9)	698,280	214,523
Site restoration expenditures	630	(15,911)
	1,316,991	943,430
Financing :		
Increase in bank loan	949,951	140,169
Loan from partnership	2,200,000	-
Shares issued, net of issue costs	706,250	338,940
Shares repurchased	(54,345)	(59,468)
	3,801,856	419,641
Investment :		
Additions to capital assets	(2,316,891)	(1,363,071)
Advances to partnership	(216,643)	-
Deferred charges	(2,574,853)	-
	(5,108,387)	(1,363,071)
Change in cash	10,460	-
Cash, beginning of year	-	-
Cash, end of year	$ 10,460	$ -

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2002 and 2001

New North Resources Ltd. (the "Company") was incorporated in May 1994 and commenced operations in September 1994. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas resources in Alberta.

1. Significant accounting policies :

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions and balances are eliminated upon consolidation.

(a) Joint interest operations :

A significant portion of the acquisition, exploration, development and production activities are conducted with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(b) Petroleum and natural gas operations :

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, plant and production equipment costs and overhead charges directly related to acquisition, exploration and development activities.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted by the unit-of-production method based on estimated gross proven reserves. Natural gas sales and reserves are converted to equivalent units of petroleum using their relative energy content.

Costs of unproved properties are initially excluded from petroleum and natural gas properties for the purpose of calculating depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The total capitalized costs less accumulated depletion and depreciation, future site restoration and future income taxes, are limited to an amount equal to the estimated future net revenue from production of proven reserves, plus the cost of unproved properties (net of impairments), less estimated costs for future administrative overhead, financing, future site restoration and taxes. Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

(c) Future site restoration costs :
Estimated future site restoration costs are provided for using the unit-of-production method based on estimated gross proven reserves. Costs are based on the Company's engineering estimates considering current regulations, costs technology and industry standards. Actual expenditures incurred are applied against the accumulated site restoration provision.

(d) Income taxes :
The Company follows the liability method of accounting for income taxes. Under this method, current taxes are recognized for the estimated income taxes payable in the current year and future income tax liabilities and assets are recognized to the extent that assets and liabilities are recorded in the accounts at amounts different from their tax basis.

(e) Flow-through shares :
The deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Share capital is reduced by and future income taxes are increased by an estimated tax cost of the deductions renounced to shareholders.

(f) Per share amounts :
Basic earnings per common share are computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(g) Stock-based compensation plans :
The Company has a stock-based compensation plan, which is described in Note 7. No compensation expense is recognized for this plan when stock options are granted to employees under this plan. Any consideration paid by employees on the exercise of stock options is credited to share capital. The pro forma effect on net income and earnings per share of granting these options to employees, based on the fair value method of accounting for stock-based compensation, is disclosed. The fair value of stock options granted is determined using the Black-Scholes option-pricing model.

2. **Deferred charges:**

	2002	2001
Acquisition and reorganization costs	**$ 374,853**	$ -
Forward purchase contract	**2,200,000**	-
	$ 2,574,853	$ -

Deferred charges of $374,853 include fees paid for potential acquisition costs and reorganization costs associated with the transactions described in Note 13. These fees will either be included as part of the cost of the acquisition or expensed when the reorganization is completed or if the acquisition is not completed.

The Company has entered into a forward purchase contract whereby they have paid $2,200,000 in advance for oil and gas production to be delivered in future periods.

3. **Capital assets :**

	2002	2001
Petroleum and natural gas properties and equipment	**$ 2,206,490**	$ 3,565,510
Less: excess depletion	**(1,073,284)**	-
Less : accumulated depletion and depreciation	**(259,522)**	(977,700)
	$ 873,685	$ 2,587,810
Furniture and equipment	**7,294**	2,024
	$ 880,978	$ 2,589,834

As at December 31, 2002 the estimated future site restoration costs to be accrued over the remaining proven reserves totaled approximately $Nil (2001 - $80,700).

During the year ended December 31, 2002 overhead directly related to acquisition, development and exploration activities in the amount of approximately $60,000 (2001 - $60,000) was capitalized to petroleum and natural gas properties.

At December 31, 2002 capital assets included $873,685 (2001 - $90,000) relating to unproven property costs that have been excluded from depletion and amortization calculation.

On December 31, 2002 the Company sold oil and gas properties with a net book value of $2,362,076 for preferred shares of the purchaser as described in Note 4.

4. **Long-term investments :**

	2002	2001
Investment in New North Resources Partnership	$ 62,312	$ -
Investment in Canadian Blackhawk Energy Inc.	5,801,500	-
	$ 5,863,812	$ -

During the year, the Company sold 98 percent of its interest in the New North Resources Partnership to Canadian Blackhawk Energy Inc. (Blackhawk) in exchange for $98,000 retractable, redeemable, non-voting, 8 percent preferential cumulative dividend preferred shares of Blackhawk with a value of $5,801,500. The effects of this transaction are as follows:

Acquisition of Preferred Shares	$ 5,801,500
Less Partnership assets disposed of:	
Capital assets	2,362,076
Accounts receivable	344,362
Accounts payable	(392,686)
Site restoration liabilities	(24,609)
Cash	185,504
Subtotal	2,474,647
Gain on Sale	$ 3,326,853

5. **Bank loan :**
In November 2002 the Company established a $2,100,000 revolving line of credit facility with a financial institution, bearing interest at a rate of prime plus 1.25 percent and secured under a general security agreement covering certain petroleum and natural gas properties and equipment and floating charge debenture. The facility is due on demand. At December 31, 2002 the Company had drawn $1,419,500 of the facility. The Company has adopted the recommendation of the CICA's Energy Issues Committee Abstract 122 concerning the presentation of revolving demand loans. As such, the Company has classified borrowing under its credit facility as a current liability.

6. **Loan payable :**
The loan is payable to New North Resources Partnership and consists of a note payable for $2,200,000 bearing interest at 5 percent per annum, and an unsecured non-interest bearing advance of $64,889. These loans have no fixed terms of repayment.

7. **Share capital :**
(a) Authorized :
The Company is authorized to issue an unlimited number of common shares without nominal or par value.

(b) Issued :

	Number of shares		Amount
Balance, December 31, 2000	7,325,000	$	583,811
Exercise of stock options	340,000		51,000
Flow-through shares for cash (net of issue costs of $10,110)	873,000		295,440
Tax effect on flow-through shares			(125,856)
Share purchase loan			(7,500)
Shares repurchased and cancelled	(213,000)		(59,468)
Share repurchase adjustment			44,410
Balance, December 31, 2001	8,325,000	$	781,837
Shares repurchased and cancelled	(193,000)		(54,345)
Share repurchase adjustment	-		35,000
Flow Through shares for cash	2,519,667		755,900
Issuance Costs	-		(49,651)
Balance, December 31, 2002	10,651,667	$	1,468,741

(c) Flow-through shares :

During 2001, the Company issued 873,000 flow-through shares. The Company was committed to spend $305,550 by December 31, 2002 relating to the flow-through shares. During 2002, the Company incurred the required $305,550 in expenditures. During 2002, the Company issued 2,519,667 flow-through shares. The Company is committed to spend $755,900 by December 31, 2003 relating to the flow-through shares.

(d) Share options :

The Company has a share option plan for its directors, officers, employees and consultants in which up to 10 percent of the issued outstanding shares are reserved for issuance. A summary of the status of the share option plan as of December 31, 2002 and 2001, and changes during the years then ended is presented below:

		2002		2001
	Options	**Weighted average exercise price ($)**	Options	Weighted average exercise price ($)
Outstanding at beginning of year	**665,000**	**0.16**	640,000	0.16
Granted	**100,000**	**0.25**	365,000	0.22
Exercised	**-**	**-**	(340,000)	0.15
Cancelled	**-**	**-**	-	-
Outstanding and exercisable at end of year	**765,000**	**0.21**	665,000	0.20

The following table sets forth information relating to stock options in 2002:

	Range of Exercise Prices	Number Outstanding at December 31, 2002	Weighted average remaining contractual life
January 18, 2005	$ 0.15	200,000	2.04
April 24, 2006	$ 0.22	465,000	3.32
February 25, 2007	$ 0.25	100,000	4.16
		765,000	3.09

(e) Share purchase loan :

A loan receivable of $36,500 is due from an officer and director for the purchase of common shares. The loan is non-interest bearing and is secured by 270,000 common shares.

(f) Shares repurchased and cancelled :
The Company has established a normal course issuer bid that will enable the Company to repurchase up to 359,475 of its issued and outstanding common shares on the open market through the facilities of the TSX Venture Exchange. Common shares acquired under the bid will be cancelled and the bid will terminate on April 18, 2003. During the year ended December 31, 2002, the Company repurchased and cancelled 193,000 common shares (2001 - 213,000 common shares) at a cost of $54,345 (2001 - $54,468) for an average of $0.28/share (2001 - $0.28/share). The excess of the cost of the shares over their assigned value of $35,000 (2001 - $44,410) was allocated to retained earnings.

(g) Per share amounts :
The weighted average number of common shares outstanding during the year was 8,599,041 (2001 - 7,645,830). In computing diluted earnings per share, 182,407 common shares (2001 - 144,421) were added to the weighted average number of common shares outstanding during the year for the dilutive effect of stock options.

8. Income taxes :

The differences between the expected income tax provision based on the combined federal and provincial statutory income tax rate of approximately 42.25 percent (2001-42.6 percent) and the amount actually provided are as follows :

	2002	2001
Expected income taxes	**$ 1,064,797**	$ 159,759
Non-deductible crown payments	**-**	138,915
Non-taxable portion of investments	**(1,281,206)**	-
Alberta royalty tax credit	**(11,458)**	(29,221)
Resource allowance	**(50,433)**	(92,754)
Provincial tax rate reduction	**-**	(25,910)
Recognition of prior years' losses	**(57,864)**	-
Other	**44,746**	16,760
	$ (291,418)	$ 167,549

At December 31, 2002 the Company has resource tax pools of $2,236,100 (2001 - $682,000), after flow-through share renouncements, share issue costs of $45,800 (2001 - $8,088), and losses of $554,800 (2001 - $136,956) available to apply against future years' taxable income.

The components of the future income tax liability at December 31, 2002 and 2001 are as follows:

	2002	2001
Future income tax assets (liabilities) :		
Future site restoration	**$ -**	$ 8,355
Share issue expenses	**19,345**	3,445
Tax losses	**222,970**	-
Petroleum and natural gas properties	**565,959**	(863,934)
Investment in Canadian Blackhawk Energy Inc.	**(1,146,605)**	-
Net future income tax liability	**$ (338,331)**	$ (852,134)

9. Change in non-cash working capital :

	2002	2001
Accounts receivable	**$ (742,826)**	$ 75,084
Prepaid expenses	**7,881**	(15,496)
Accounts payable	**1,433,225**	154,935
	$ 698,280	$ 214,523

10. Commitments :

The Company has future operating lease obligations on office premises in the aggregate amount of $69,925. The minimum lease payments over the next five years are as follows:

2003	**$**	**27,970**
2004	**$**	**41,955**

11. Financial instruments :

(a) Interest rate risk :
The Company is exposed to interest rate fluctuations on its bank line of credit.

(b) Foreign currency exchange risk :
The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices.

(c) Credit risk :
A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

(d) Fair value of financial instruments :
The carrying amounts of financial instruments included in the consolidated balance sheet approximate their fair value due to their short term maturity.

12. Related party transactions :

Effective January 1, 2000 the Company entered into a service agreement with a corporation controlled by an officer to provide administrative, accounting and secretarial services. During 2002 the Company paid $89,000 (2001 - $81,000) for these services.

A corporation controlled by a director participated in certain farm-out, joint ventures and other similar agreements with the Company.

13. Subsequent Events :

The Company purchased an additional $588,000 of preferred shares of Canadian Blackhawk Energy Inc. (Blackhawk) in exchange for preferred shares of its subsidiary companies.

On February 10, 2003, the Company and Blackhawk entered into a new partnership agreement whereby the Company transfered oil and gas assets for a 54 percent interest in the partnership. Blackhawk transfered oil and gas assets to the partnership in exchange for a 46 percent interest in the partnership.

On March 19, 2003, the Company entered into a loan agreement with TM Energy Ltd. (TM), a company controlled by the president of New North Resources Ltd., to loan up to $700,000 to TM to enable it to assist Blackhawk in making a proposal to its creditors and to purchase all of issued and outstanding shares of Blackhawk. The loan bears interest at 8 percent and is secured by the assets of TM.

CORPORATE INFORMATION

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Audit Committee, Calgary AB

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